

## Chapter 8 Territory Own-Source Revenue

**Overview** Northern Territory own-source revenue comprises taxes, fees, charges, miscellaneous property income, interest received and profit or loss on disposal of assets. Full details of revenue collected from Territory sources are set out in *Budget Paper No. 3*.

A key revenue measure in the 2007-08 Budget is the increase in the first home owner concession on stamp duty. From 1 May 2007, the stamp duty concession is increased from the first \$225 000 of a home's value to the first \$350 000 (a maximum concession of \$15 312).

The 2007-08 Budget also abolishes stamp duty on hiring arrangements from 1 July 2007, at an estimated cost of \$5.3 million in 2007-08, along with two other minor duties.

Following removal of this tax, the Government's only remaining national tax reform commitment is the abolition of stamp duty on business property conveyances (excluding land) from 1 July 2009. This is estimated to cost \$11.3 million from 2009-10.

The Government has also committed to further reduce payroll tax during its current term, at an estimated annual cost of \$6.3 million a year.

Additionally, on 29 March 2007, state and territory Treasurers announced that a national overhaul of payroll tax arrangements had been agreed. The states and territories will adopt common provisions and definitions, commencing no later than 1 July 2008, for the timing of lodgments, motor vehicle allowances, accommodation allowances, a range of fringe benefits, payroll tax imposed on work performed outside a jurisdiction, employee share acquisition schemes, superannuation contributions for non-working directors and the grouping of businesses.

Although provisions and definitions are to be harmonised, states and territories will continue to determine rates and thresholds applicable in their jurisdictions.

The Budget also includes a range of efficiency and equity taxation measures which are explained as part of the Budget initiatives in Chapter 4.

This chapter provides an explanation of the Territory's own-source revenue regime, how it compares with the other jurisdictions, and the Territory's response to national tax reform.

It also includes a statement of the Territory's forecast tax expenditures as a result of concessions and exemptions for 2007-08 through to 2010-11 as required by the *Fiscal Integrity and Transparency Act*.

### Assessments of Revenue Effort and Capacity

The ability of the states to generate revenue from their own sources is a result of the size of each jurisdiction's revenue base and the tax rates the government applies.

The Commonwealth Grants Commission (the Commission) assesses each jurisdiction's revenue capacity and revenue effort when calculating goods and services tax (GST) shares. Revenue capacity is the per capita revenue a state could raise by applying national average rates to its own revenue base, whereas revenue effort is whether state taxes are applied at levels above or below the national average level.

Average revenue capacity and effort are assumed to be 100 per cent. If a state has an above average revenue effort or capacity it will score more than 100 per cent, while below average capacity or effort is less than 100 per cent.

The most recent data used by the Commission to assess revenue capacity and effort is 2005-06 data.

Table 8.1 compares revenue capacity in all jurisdictions and shows that the Territory's capacity is just below average and higher than four other jurisdictions.

**Table 8.1: Revenue Capacity by Jurisdiction – Total Own-Source Revenue**

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
99.75	90.45	107.54	137.48	78.03	68.13	82.63	94.47

Source: Commonwealth Grants Commission 2007 Update Report.

Table 8.2 provides a comparison of the Commission's assessment of own-source revenue-raising effort in 2005-06 and includes taxation, mining revenue and contributions by trading enterprises, including government owned corporations.

The assessment in Table 8.2 shows that the Northern Territory has the third lowest own-source revenue-raising effort of all the states. This is lower than 2004-05 figures due largely to a reduction in revenue contributed by trading enterprises.

**Table 8.2: 2005-06 Revenue Effort by Jurisdiction – Total Own-Source Revenue**

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
102.40	98.79	88.70	109.30	106.39	101.28	115.27	98.91

Source: Commonwealth Grants Commission 2007 Update Report

Total taxation effort removes mining revenue and contributions by trading enterprises, such as dividends and tax equivalent payments.

Table 8.3 provides a comparison of the Commission's assessment of total taxation effort in 2005-06. It shows that the Territory has the second highest revenue-raising effort for total taxation.

**Table 8.3: 2005-06 Revenue Effort by Jurisdiction – Total Taxation**

NSW	Vic	Qld	WA	SA	Tas	ACT	NT
102.82	101.94	85.18	104.50	114.03	96.91	105.87	111.06

Source: Commonwealth Grants Commission 2007 Update Report.

There are various taxes, user charges and royalties assessed by the Commission where the Territory's rate of tax varies from the Australian average rate, or where the Territory does not impose tax at all, such as land tax, mortgage stamp duty and fire/emergency services levies. Arguably, a better comparative measure across jurisdictions of the tax impost on business and the community is taxation combined with mining royalties and public safety user charges, including emergency service levies. On this basis, the Territory's effort is assessed by the Commission as the third lowest of all the states, behind Queensland and Tasmania, as set out in Table 8.4.

Table 8.4: 2005-06 Tax Effort of Significant Revenue Streams

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Payroll tax	107	97	86	102	98	105	129	129
Conveyance duty	96	117	75	115	129	99	111	116
Land tax	101	101	63	110	218	285	110	
Gambling taxes	99	128	98	33	120	79	55	124
Vehicle registration fees <sup>1</sup>	132	71	108	83	82	78	133	56
Total taxation <sup>2</sup>	103	102	85	105	114	97	106	111
Public safety charges	92	98	109	115	101	183	46	14
Mineral and petroleum royalties	86	81	99	110	84	88		64
<b>Total effort<sup>3</sup></b>	<b>102</b>	<b>102</b>	<b>88</b>	<b>106</b>	<b>112</b>	<b>99</b>	<b>104</b>	<b>101</b>

1 Vehicle registration fees exclude heavy vehicles.

2 The total taxation figure is not a total of all taxes appearing in this table.

3 The table does not list all revenue streams and, as such, this figure is not a total for the table.

Source: Commonwealth Grants Commission 2007 Update Report.

The Territory Government raised the payroll tax exemption threshold from \$800 000 to \$1 million from 1 July 2005, at a cost to revenue of \$3.4 million. Notwithstanding this change, the Territory's payroll tax effort is estimated to be significantly higher than the national average. The increased effort for payroll tax reflects a reduction in the Territory's assessed capacity resulting from a revision of the Australian Bureau of Statistics data used by the Commission.

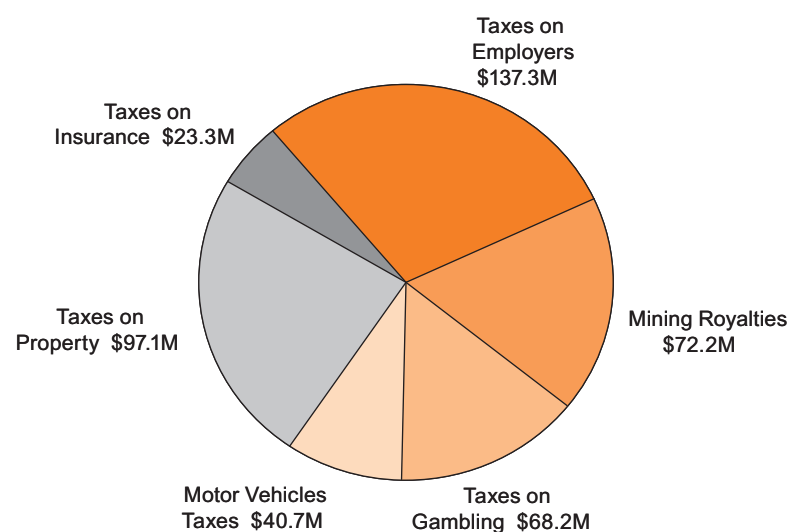
The Territory's assessed effort for gambling taxes increased significantly, from 111 per cent in 2004-05 to 124 per cent in 2005-06, reflecting the increase in gambling taxes received in 2005-06. This was predominantly a result of the cessation of the Community Gaming Rebate for the SKYCITY Casino.

The Territory's conveyance duty effort is higher than the national average, but is offset by the Territory not imposing a land tax or mortgage duty.

Chart 8.1 shows the Territory's major own-source revenues in 2007-08 according to the classification used in the Uniform Presentation Framework, adopted for the Territory's reporting requirements.

## Analysis of Territory Revenue

Chart 8.1: 2007-08 Main Own-Source Revenue Categories



Note: Excludes payroll tax collected from general government entities.

Source: Northern Territory Treasury.

The projected revenue for 2007-08 from main own-source revenue totals \$438.8 million. As indicated in Chart 8.1, taxes on employers (payroll tax) comprise \$137.3 million, or 31.3 per cent, and taxes on property (stamp duties on financial and capital transactions) are estimated at \$97.1 million, or 22.1 per cent in 2007-08.

### Payroll Tax

Payroll tax is payable at a rate of 6.2 per cent on the amount by which wages paid by employers exceed the general exemption threshold of \$1.25 million.

In all states and territories, the threshold is reduced if an employer pays wages in more than one state or territory. For example, if an employer:

- pays wages in the Northern Territory and elsewhere in Australia, the threshold is reduced to reflect the level of wages paid outside the Territory. Therefore, if an employer pays 50 per cent of its wages in the Territory and 50 per cent interstate, the general exemption threshold is reduced by 50 per cent to \$625 000; or
- only employs for part of a financial year, the threshold is reduced to reflect the period that the employer paid wages during the year. Therefore, if an employer only pays wages for six months of the year, the general exemption threshold is reduced to \$625 000.

Revenue from payroll tax is forecast to be \$137.3 million in 2007-08 and continues to be the Territory's single most significant own-source tax revenue.

The payroll tax rate in the Northern Territory has reduced from 6.5 per cent in 2001 to 6.2 per cent. The Government has announced that it intends further reducing payroll tax during its current term in government.

Table 8.5 shows that the Northern Territory's payroll tax exemption threshold is the equal highest in Australia and that its payroll tax rate is currently the second highest.

Table 8.5: State and Territory Payroll Tax Rates and Exemption Thresholds

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Average
Threshold (\$M)	0.6	0.55	1.0 <sup>1</sup>	0.75	0.50	1.01	1.25	1.25	0.86
Rate (%)	6.00	5.05	4.75	5.50	5.50	6.10	6.85	6.20	5.74

<sup>1</sup> Queensland's threshold diminishes so that no exemption is provided for employers with wages over \$4 million.

Source: State legislation and information available as at 20 April 2007.

However, while the Northern Territory's payroll tax rate appears high, this does not present an accurate comparison with other payroll tax regimes as the effect of the threshold exemption needs to be taken into account. The impact of the application of each state and territory's payroll tax rate and exemption threshold is illustrated in Table 8.6.

Table 8.6: Effective State and Territory Payroll Tax Rates at Various Wage Levels.

Wages	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
\$M	%	%	%	%	%	%	%	%
2	4.2	3.7	3.2	3.4	4.1	3.0	2.6	2.3
4	5.1	4.3	4.8	4.5	4.8	4.6	4.7	4.3
6	5.4	4.6	4.8	4.8	5.0	5.1	5.4	4.9
10	5.6	4.8	4.8	5.1	5.2	5.5	6.0	5.4
20	5.8	4.9	4.8	5.3	5.4	5.8	6.4	5.8

Source: Northern Territory Treasury and available information as at 20 April 2007.

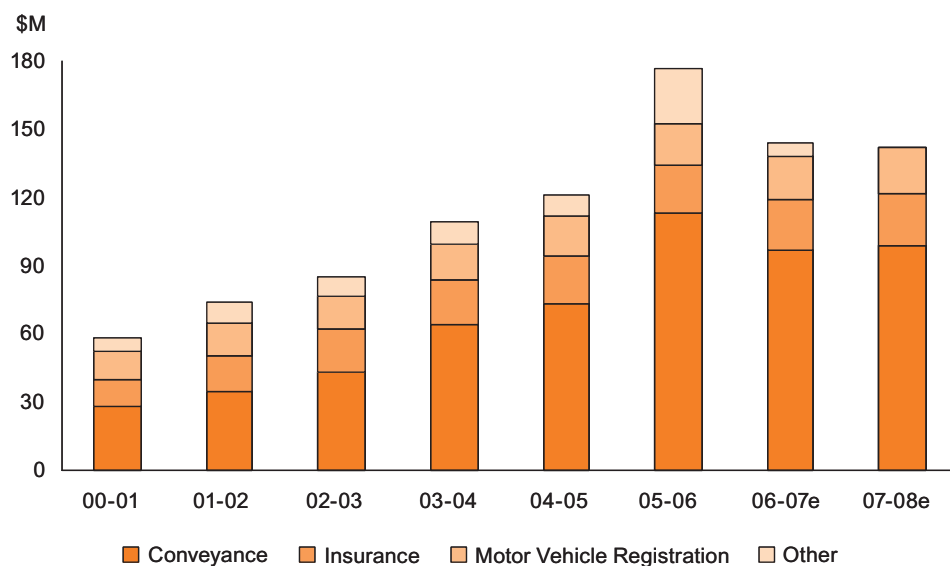
Table 8.6 shows that:

- the Territory's payroll tax regime is more favourable than all other jurisdictions for small to medium businesses with wages up to \$4 million; and
- the payroll tax burden for larger businesses in the Territory is more favourable than, or comparable with, New South Wales, South Australia, Tasmania and the Australian Capital Territory.

## Stamp Duty

Total revenue from the Territory's stamp duties is forecast to be \$140.2 million in 2007-08. The main components are conveyance, insurance and motor vehicle transfer of registration duties, as shown in Chart 8.2.

Chart 8.2: Stamp Duty Collections



e: estimate

Source: Northern Territory Treasury.

Stamp duty revenue in 2006-07 is projected to be \$144.6 million. This is higher than the estimate of \$127.4 million originally forecast in the 2006-07 Budget. Although residential property sales remained strong during 2006-07 and property prices continued to increase, the increase was mainly attributable to higher stamp duty collections from non-residential conveyances, resulting from a greater than expected number of larger transactions.

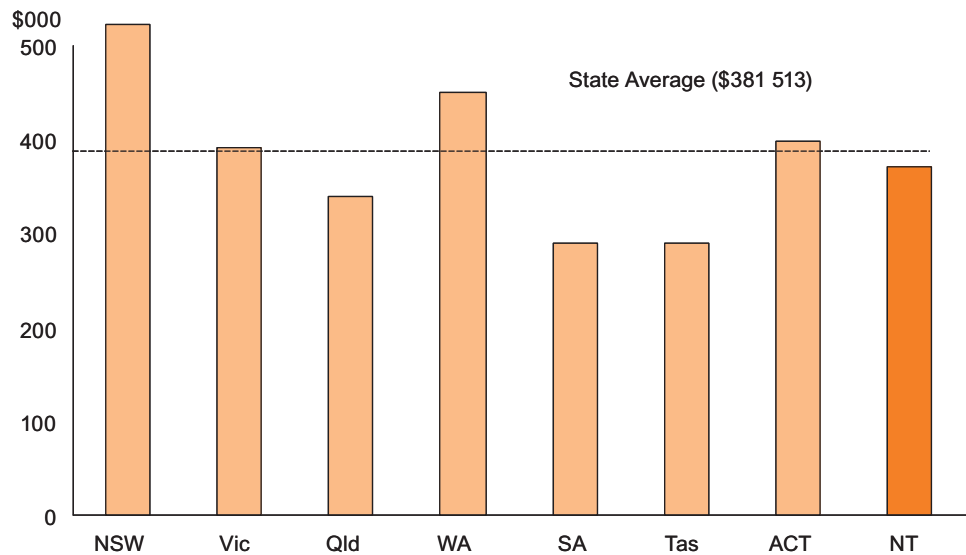
## Conveyance Duty

The Territory's conveyance duty is derived from conveyances of dutiable property in the Territory. Such property mainly comprises real estate and transfers of businesses.

The Commission assessed the Territory's revenue-raising effort in this category as the third highest of the states and above the national average. However, there are aspects of the Territory's conveyance stamp duty regime on which the duty load is comparatively less than other jurisdictions. In the main, this includes the Territory's home purchase stamp duty concessions.

A practical comparison of the effect of state and territory conveyance stamp duty is obtained by comparing the conveyance stamp duty payable on the purchase of a median-priced home in each capital city. Chart 8.3 sets out the median house prices for the December 2006 quarter for Australian capital cities. These prices are used as the basis for the stamp duty comparisons in Charts 8.4 and 8.5.

Chart 8.3: Median House Prices for Australian Capital Cities for the December 2006 Quarter



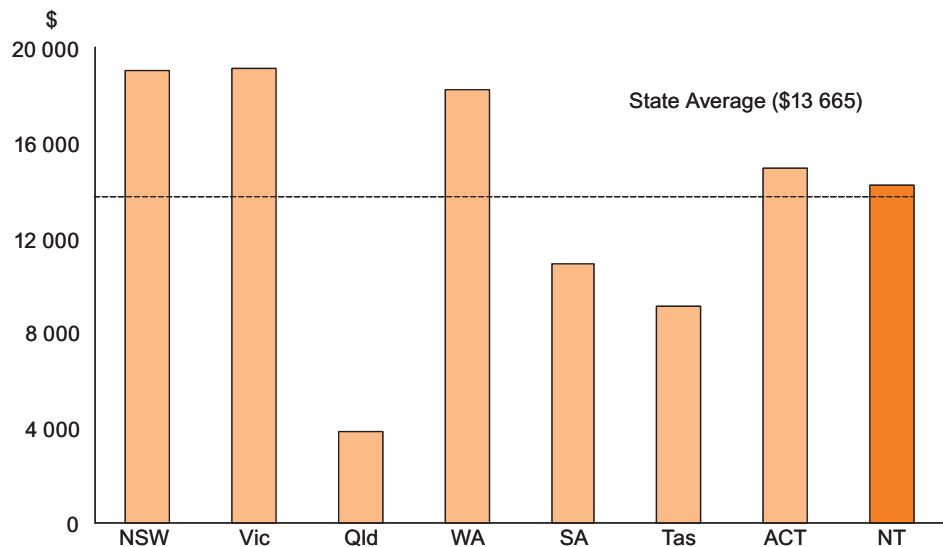
Note: Current as at 20 April 2007.  
Source: Real Estate Institute of Australia.

The median house price in Darwin increased significantly during 2006, at a higher rate than all other capital cities except Perth. Despite this increase, Chart 8.3 shows that the median house price in Darwin is below the average median house price of all capital cities.

In response to rising house prices, the Government has provided significant incentives to promote home ownership in the Territory, including the first home owner stamp duty concession and the principal place of residence stamp duty rebate. In addition, the HomeNorth scheme, the Territory’s shared equity scheme, has been significantly remodelled to make it easier for low and middle income earners to own a home.

The benefit of the Territory’s principal place of residence rebate of \$2500 is shown in Chart 8.4. The rebate reduces the Territory’s conveyance duty on a principal place of residence in Darwin to an amount that is similar to the national average and the fourth lowest of the jurisdictions. Although not reflected in Chart 8.4, Territory home buyers also benefit from paying no stamp duty on any mortgage security or, for investors, annual land tax.

Chart 8.4: Conveyance Duty Payable on Purchase of a Median-Priced Principal Place of Residence, from 1 May 2007



Note: Median prices as at December 2006  
Source: Real Estate Institute of Australia, state legislation and information available as at 20 April 2007.

The 2007-08 Budget increases the first home owner stamp duty concession to the first \$350 000 of a home's value (a stamp duty concession of up to \$15 312), and was in response to strong increases in home prices in the Northern Territory in the past 12 months. Increasing the first home owner concession is one avenue available to Government to assist in improving housing affordability for first home buyers.

Chart 8.5 provides an interjurisdictional comparison of the stamp duty levied for a first home owner on the purchase of a median-priced house in a capital city. The stamp duty payable in the Territory by a first home owner on a median-priced house in Darwin is significantly below the national average and is the second lowest in Australia, behind only Queensland. Territory first home buyers now receive stamp duty relief on the first \$350 000 of their purchase.

Chart 8.5: Conveyance Duty Payable on Purchase of a Median-Priced First Home, from 1 May 2007



Note: Victoria has a First Home Bonus for first home buyers who are eligible for the \$7000 First Home Owner Grant. The bonus is \$5000 for the purchase or building of a new home, or otherwise is \$3000, and ceases on 1 July 2009. The bonus is only available where the consideration paid under the contract is no more than \$500 000.

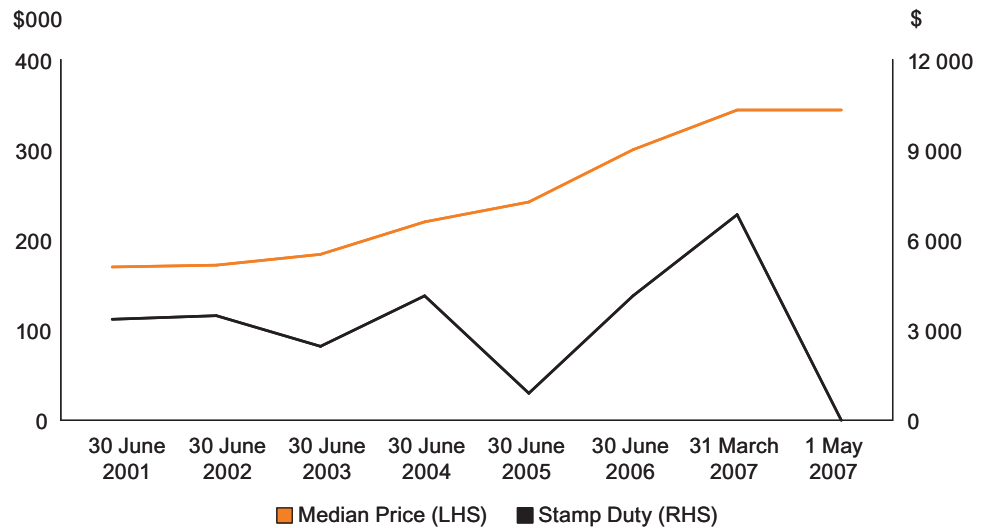
Source: Real Estate Institute of Australia, state legislation and information available as at 20 April 2007.

The effect of the increases to the first home owner concession can be seen in Charts 8.6 and 8.7, which show that the median price of a house or unit purchased by first home buyers in Darwin is considerably less than that purchased by other house and unit buyers. For example, the median price paid by first home buyers for a house and unit in Darwin, to the end of December 2006, is \$340 000 and \$260 000 respectively. This compares to a median house and unit price paid by other buyers of \$370 000 and \$300 000 respectively for the December 2006 quarter relative to the value of the home being purchased.

These charts show that, although house and unit prices have increased since 2001, the amount of stamp duty paid by first home buyers has decreased.

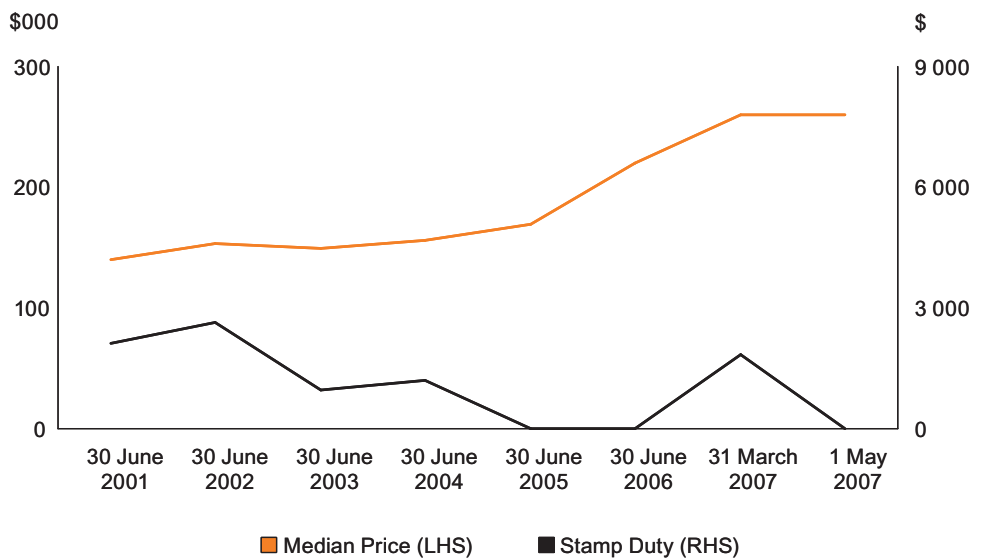
First home buyers purchasing a house or unit at the median price paid by first home buyers in Darwin will pay no stamp duty on that purchase because of the higher first home owner concession from 1 May 2007.

Chart 8.6: Median-Priced House Purchased by a First Home Buyer and the Conveyance Duty Payable on that Purchase



Source: Northern Territory Treasury.

Chart 8.7: Median-Priced Unit Purchased by a First Home Buyer and the Conveyance Duty Payable on that Purchase



Source: Northern Territory Treasury.

### Insurance Duty

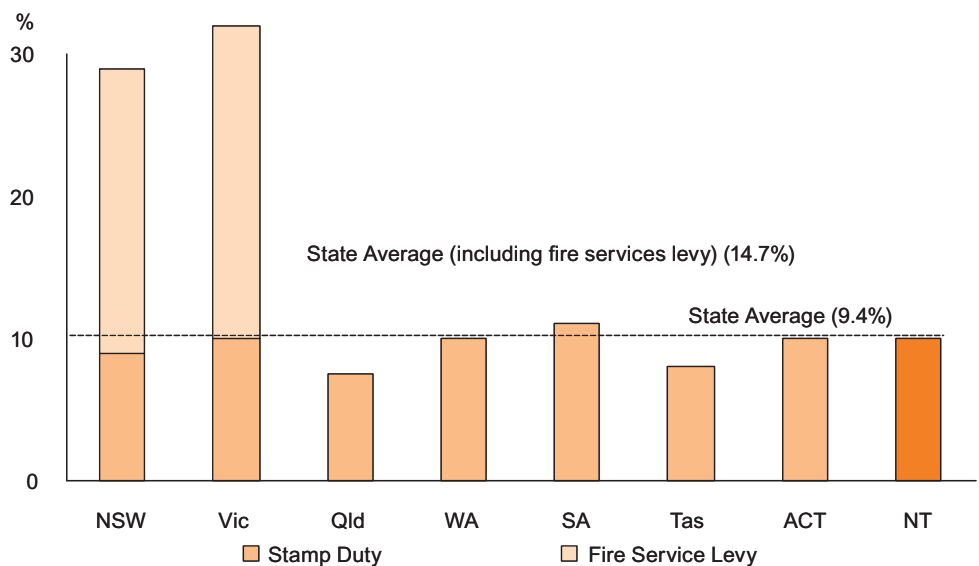
Insurance duty is imposed on general and life insurance policies, with general insurance comprising the majority of the revenue collected from this stamp duty. Revenue from insurance duty is forecast to be \$23.3 million in 2007-08.

As shown in Chart 8.8, the total tax load on domestic insurance in New South Wales and Victoria is significantly above the national average when fire services levies are taken into account, with the Territory being one of the lower-taxing jurisdictions. These states collect their fire services levy as a rate applied to insurance premiums.

Rather than utilising the domestic insurance base, Tasmania, Queensland, South Australia, Western Australia and the Australian Capital Territory each impose their emergency or fire services levies on property owners through local councils. Tasmania also raises the levy on certain types of non-domestic insurance, while Queensland has an ambulance levy on general public electricity accounts.

The Territory does not impose any emergency or fire services levies on the general public, although in line with the states it does levy charges for commercial fire alarm monitoring.

Chart 8.8: Total State and Territory Taxes on Domestic Insurance



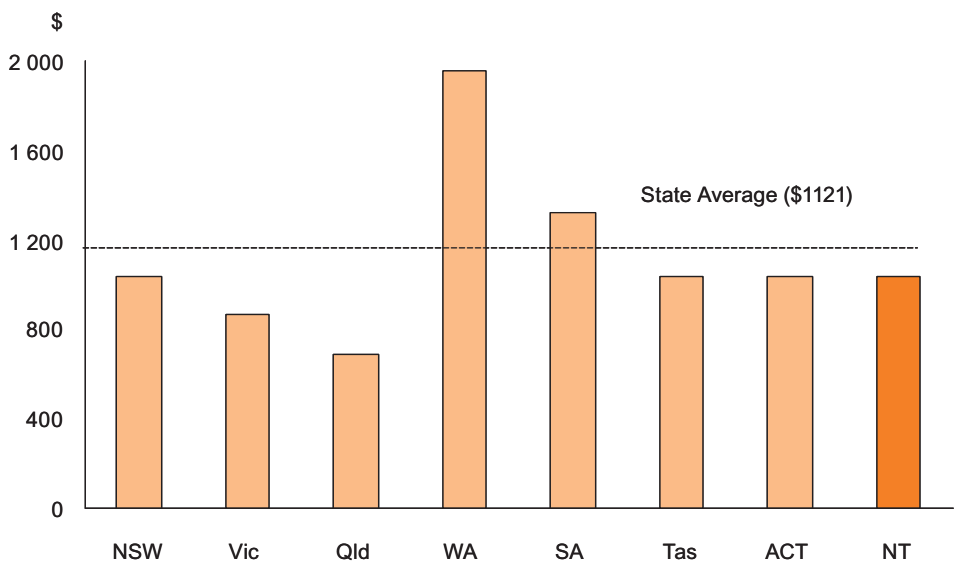
Source: State legislation and information available as at 20 April 2007.

### Motor Vehicle Registration Duty

Stamp duty is levied on the transfer and initial registration of motor vehicles. Generally, the duty is levied on the purchase price of the vehicle. Revenue from this source in 2007-08 is forecast to be \$19.8 million.

The Territory rate of duty is slightly below the national average for a new vehicle valued at \$34 500 (Chart 8.9). Unlike most jurisdictions, the Territory does not impose a higher rate of duty on luxury cars.

Chart 8.9: Motor Vehicle Registration Duty on a New Vehicle Valued at \$34 500



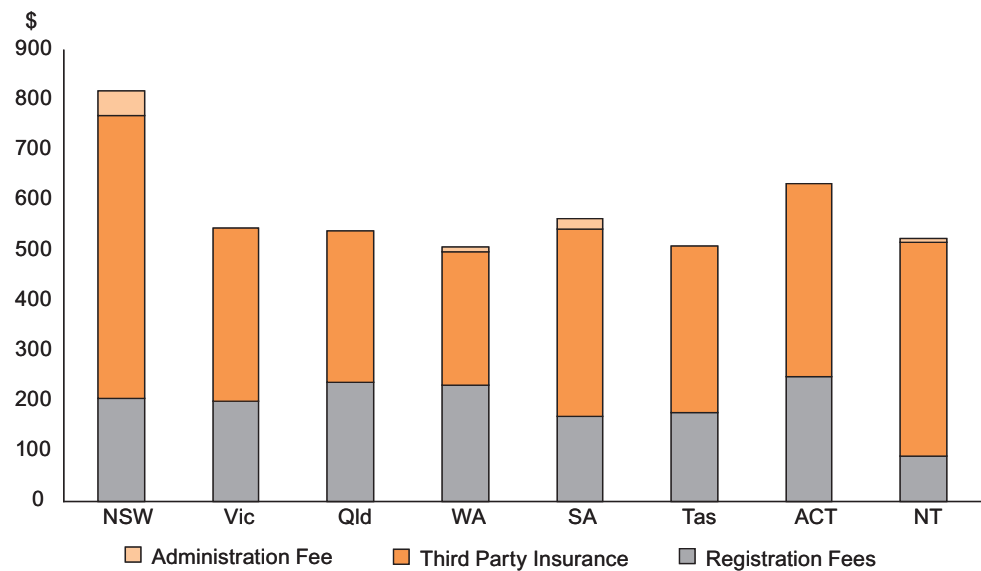
Source: State legislation and information available as at 20 April 2007.

### Motor Vehicle Registration

Vehicle registration fees and taxes vary significantly across the jurisdictions. At \$524.70, the Territory has the third lowest annual registration and third party insurance fees in Australia for a medium-sized passenger vehicle (see Chart 8.10).

The Territory's registration fee, excluding third party insurance of \$90, is the lowest in Australia and well below the national average of \$194.82. Higher compulsory third party premiums in the Northern Territory (\$426.30) reflect inherently higher costs due to the small size of the Territory and relatively high road accident casualties.

Chart 8.10: Annual Registration Fees and Charges for a Medium-Sized Passenger Vehicle (March 2007)



Note: Prices are for capital cities, however, prices charged in Darwin apply across the Territory. Based on a 4 cylinder Toyota Camry CSI Sedan. Source: Northern Territory Treasury.

## Land Revenue

This category includes taxes on the ownership of land, where the taxes are based on the assessed unimproved value of the land. It also includes any metropolitan land planning and development levies that are included in the land tax base of some states.

Land tax is generally levied on commercial land and investment residential property, although a general exclusion is provided for land used for primary production.

The Territory does not impose a land tax, however, in its 2007 assessment, the Commission has assessed a land tax capacity of approximately \$20.9 million, being an approximation of the land tax that the Territory would receive based on an average of the other states' land tax regimes.

## Gambling Taxation

Gambling taxes constitute a significant proportion of state and territory revenues. Revenue from the Territory's gambling taxes is forecast to be \$68.2 million in 2007-08.

The Territory raises gambling revenues from taxes levied on the value of bets placed with bookmakers, taxes levied on the value of investments in lotteries, taxes levied on the turnover of gaming machines in clubs and hotels and taxes levied on player losses at casinos. Similar taxes are raised in all other jurisdictions.

Table 8.7 provides a breakdown of the revenue that the Territory's gambling taxes are expected to raise in 2007-08.

Table 8.7: Estimated Revenue from Gambling Taxes in 2007-08

Tax	\$000
Wagering Taxes	6 756
Internet Gaming	311
Casino	10 758
Bookmakers – Racing and Sports Betting	10 084
Community Gaming Machines	25 143
Lotteries	13 197
Community Benefit Levy	1 955
<b>Total</b>	<b>68 204</b>

Source: Northern Territory Treasury.

## Financial Taxes

From 1 July 2001, financial taxes have generally comprised debits tax and stamp duty on leases, mortgages, hiring arrangements and electronic debits.

The Northern Territory does not charge stamp duty on mortgages and has already abolished all the other taxes in this category, other than stamp duty on hiring arrangements, which is being abolished from 1 July 2007.

Accordingly, only \$0.5 million is expected to be raised from this category of taxes in 2007-08, which relates solely to stamp duty on hiring arrangements. Notwithstanding that this tax will be abolished from 1 July 2007, there will be some residual collection of duty in July 2007, arising from returns relating to June 2007.

## Mining and Petroleum Revenue

Mining revenue is obtained from royalties or rent equivalents levied on the recovery of mineral commodities from a mining tenement in the Northern Territory. Similarly, petroleum revenue accrues from royalties imposed on the production of petroleum in the Territory. Mineral and petroleum royalties are not a tax but a charge for resource usage, payable to the Government as the owner of the site or the mineral or petroleum rights over the site.

Mining and petroleum revenue is forecast to be \$72.2 million in 2007-08.

The Territory's mining royalty revenues are based on both profits-based and *ad valorem* regimes, whereas *ad valorem* regimes predominate in other jurisdictions. The Territory's petroleum royalty revenues are based on an *ad valorem* regime, after allowing post wellhead costs up to the point of sale.

The Territory's profits-based regime uses the net value of a mine's production to calculate royalty. In contrast, *ad valorem* regimes calculate royalty based on a mine's gross production value. Other royalty schemes calculate royalty on the tonnage of minerals extracted. The Northern Territory's profits-based regime is less likely to impact on investment decisions as it is aligned to the returns derived from a mining venture. This means that:

- both prices and mining costs are taken into account in royalty calculations. If production costs rise or fall, royalty may decline or increase accordingly;
- royalty will generally be payable in years when the ability to pay is the greatest; and
- mines operating in isolated locations or with high costs of extraction may pay less royalty than mines in good locations or with simple operations. This is contrasted with an *ad valorem* royalty scheme as it tends to increase the royalty share of returns for less profitable mines and reduce the royalty share of return for more profitable mines.

## National Tax Reform

Mineral royalties are collected in the Northern Territory from mining and quarrying for gold, silver, bauxite, manganese, sand, gravel, laterite, vermiculite and lime. Royalties are not collected in respect of uranium mining in the Territory, as the Australian Government retains ownership of uranium in the Northern Territory. A grant in lieu of uranium royalty is paid by the Australian Government to the Northern Territory.

National tax reform began on 1 July 2000. Key to the new arrangements was the replacement of wholesale sales tax with a broad-based GST, agreed removal of certain 'business' taxes and the review of other taxes. Although the original tax reform package provided sufficient capacity to remove a number of state taxes, the removal of food from the GST base meant that the final tax reform package had reduced capacity for removal of additional taxes.

### Territory Taxes Already Abolished

In accordance with the Intergovernmental Agreement, the Territory abolished tourism marketing duty from 1 July 2000, stamp duty on quoted marketable securities and financial institutions duty from 1 July 2001, and debits tax from 1 July 2005.

Following the Treasurers' Conference in March 2005, the Territory joined with five other jurisdictions in proposing a five year timetable for the abolition of other taxes, beginning from 1 July 2005. Other jurisdictions have since submitted timetables. In accordance with that commitment, the Territory abolished:

- electronic debit transaction duty from 1 July 2005;
- stamp duty on the transfer of non-quoted marketable securities from 1 July 2006; and
- stamp duty on the rent paid for the grant and renewal of non-residential leases and franchise arrangements from 1 July 2006.

Details of the abolition schedule for the Territory's remaining business taxes specified in the Intergovernmental Agreement are set out below.

### Stamp Duty on Hiring Arrangements

Stamp duty levied on the rent paid in respect of the hire of goods, including consumer and producer goods and instalment purchase arrangements, is to be abolished from 1 July 2007.

### Stamp Duty on Non-Residential Conveyances, Other Than Land

Stamp duty levied on the value of conveyances of non-residential property conveyances, other than land, is to be abolished from 1 July 2009.

## Tax Expenditures

Tax concessions are often provided to benefit a specified activity or class of taxpayer. They are expenditures in the sense that their impact on the budget is similar to direct outlays, and they can be used to achieve similar goals to spending programs.

Tax expenditures can be provided in a variety of ways including by way of exemption, deduction, rebate or reduced tax rate.

The tax expenditure statement details revenue estimated to be forgone by the Government or financial benefits obtained by taxpayers as a result of tax exemptions or concessions provided by the Government. Identifying this expenditure assists in providing a more accurate picture of what the Government contributes by way of taxation concession to assist various groups or industries.

The tax expenditures identified in this statement relate to the more important and material concessions applicable in the Northern Territory. In accordance with the *Fiscal Integrity and Transparency Act*, the tax expenditure statement provides forecast information for 2007-08 and the following three financial years.

### Methodology

Tax expenditures have been estimated by applying the benchmark rate of taxation to the forecast volume of activities or assets exempted by a particular concession. Only those future events that are certain or highly likely to impact on assumed tax bases or tax rates have been taken into consideration in estimating future tax expenditures. Otherwise, the existing taxation arrangements have been assumed to apply for future years.

Measuring tax expenditures requires the identification of:

- a benchmark tax base;
- concessionary taxed components of the benchmark tax base, such as a specific activity or class of taxpayer; and
- a benchmark tax rate to apply to the concessionary taxed components of the tax base.

The establishment of a tax benchmark provides a basis against which each tax concession can be evaluated. The aim of the benchmark is to determine which concessions are tax expenditures as opposed to structural elements of the tax.

By definition, tax expenditures are those tax concessions not included as part of the tax benchmark.

### Payroll Tax

	2007-08	2008-09	2009-10	2010-11
Tax expenditure (\$M)	105.6	111.2	117.2	123.6

The benchmark tax base for payroll tax is assumed to be all wages, salaries and supplements paid in the Northern Territory, as defined in the *Pay-roll Tax Act*. The benchmark tax rate is assumed to be the payroll tax rate that will apply in 2007-08, being 6.2 per cent.

Tax expenditure in relation to many payroll tax concessions is difficult to estimate, as data is not generally collected in relation to employers that do not have a payroll tax liability. Accordingly, the estimated tax expenditure reported above has been derived by using high level Australian Taxation Office data about wages paid by employers in the Territory and comparing this to wages information reported by employers registered for payroll tax in the Territory. The difference between these two sets of data provides a reasonable estimate of wages that are not subject to payroll tax in the Territory because of payroll tax concessions provided in the legislation.

The estimated tax expenditure reported above mainly comprises the following exemptions.

### Small Business Exemption

The first \$1.25 million of an employer's wages are exempt from payroll tax in the Territory. Accordingly, employers with wages less than this amount in the relevant years are not required to pay tax, and employers with wages that exceed this amount only pay tax on the excess.

At the payroll tax rate of 6.2 per cent, the \$1.25 million exemption reduces an employer's annual payroll tax liability by up to \$77 500.

### Apprentices, Graduates and Others

An exemption applies for wages that are paid or payable to:

- apprentices within the meaning of the *Northern Territory Employment and Training Authority Act*;
- employees receiving wages funded under the Community Development Employment Projects program; or
- graduates of approved tertiary institutions employed under trainee arrangements approved by the Commissioner of Taxes.

This exemption replaced a rebate scheme that applied prior to 1 July 1999.

### Private Educational Institutions and Local Governments

Payroll tax does not apply to wages paid or payable by the following organisations, to the extent that those wages are paid for an employee's services that relate directly to the purpose for which the organisation was established:

- private non-tertiary schools or colleges;
- local governing bodies; or
- religious institutions, public benevolent institutions or public hospitals.

### Stamp Duty on Conveyances

	2007-08	2008-09	2009-10	2010-11
Tax expenditure (\$M)	36.5	37.3	38.0	38.9

The benchmark tax base is assumed to be sales of all dutiable property, including chattels that are part of a transaction that conveys other dutiable property. The benchmark tax scale is assumed to be the stamp duty scale that will apply in 2007-08.

The estimated tax expenditure reported above comprises the items below.

### Corporate Reconstructions Exemption

An exemption for transfers of property between commonly-owned corporations was introduced from 10 October 2002. The exemption is to allow corporate groups to reorganise the ownership of assets into more efficient structures.

The estimated value of the concession is based on the actual amount of stamp duty forgone as a result of approved corporate reconstruction exemptions and how this relates to overall conveyance stamp duty collections.

### First Home Owner Concession

A stamp duty concession is available for the purchase of a person's first home in the Northern Territory.

The concession has been increased on a number of occasions since 2002 and from 1 May 2007, the concession increases to include the stamp duty payable on the first \$350 000 of a home's value (that is, up to \$15 312 in stamp duty).

The estimated tax expenditure for this concession is based on actual historical data collected in relation to the concession and how this relates to overall conveyance stamp duty collections.

### Principal Place of Residence Rebate

From 20 August 2002, a stamp duty rebate of up to \$1500 of the duty payable on the purchase of a person's principal place of residence in the Northern Territory was introduced.

The rebate amount was increased to up to \$2500 from 20 June 2005, the equivalent to a rebate of the stamp duty on about the first \$92 500 of a home's value. This concession is not available to first home buyers.

The estimated tax expenditure for this concession is based on actual historical data collected for this rebate and how it relates to overall conveyance stamp duty collections.

### Other Conveyance Stamp Duty Exemptions

Several other conveyance stamp duty exemptions are provided that together result in significant revenue being forgone by the Territory, the largest of these being exemptions for:

- the transfer of a company's property, on its winding up, to a shareholder of the company entitled to the property on a distribution in kind;
- instruments made pursuant to a court order that alter the interests of the parties to a marriage. This exemption is provided under the *Australian Family Law Act*;
- the conveyance of property between partners of a de facto relationship on the breakdown of the relationship; and
- property transferred to public benevolent institutions, religious institutions, public hospitals and public education institutions for a purpose other than the carrying on of a commercial activity conducted by or on behalf of the entity.

The estimated tax expenditure for these concessions is based on actual historical data collected in relation to the various exemptions that have been granted and how these relate to overall conveyance stamp duty collections.

### Stamp Duty on General Insurance Policies

	2007-08	2008-09	2009-10	2010-11
Tax expenditure (\$M)	14.7	15.1	15.6	16.0

The benchmark tax base is assumed to be all classes of general insurance policies. This does not include life insurance policies, which are treated differently for stamp duty purposes. The benchmark tax rate is assumed to be the stamp duty rate that will apply in 2007-08, being 10 per cent of the premium.

The estimated tax expenditure reported above comprises the following items.

### Workers Compensation Insurance Exemption

An exemption is provided for workers compensation insurance to help reduce labour oncosts. This item of tax expenditure has been estimated using total work health insurance policy premiums paid during past years and how these compare to total payroll data paid by employers in the Northern Territory.

### Private Health Insurance Exemption

An exemption is provided for private health insurance to help reduce the cost of such insurance. The estimated tax expenditure for this exemption is based on private health insurance premium data obtained from the Private Health Insurance Administration Council.

## Motor Vehicle Registration Fees

	2007-08	2008-09	2009-10	2010-11
Tax expenditure (\$M)	0.8	0.8	0.8	0.8

The holder of a Pensioner Vehicle Concession Card is able to receive a flat \$104 concession from motor vehicle registration fees. This is the estimated tax expenditure reported above.

Actual historical motor vehicle registration fee data has been used to estimate this item of tax expenditure.

## Mineral Royalties

	2007-08	2008-09	2009-10	2010-11
Tax expenditure (\$M)	4.5	1.0	1.0	1.0

The benchmark tax base is assumed to be all profitable mining operations in the Northern Territory. The benchmark tax rate is assumed to be the rate of royalty that will apply in 2007-08, being 18 per cent.

The estimated tax expenditure reported above comprises the following items.

### Eligible Exploration Expenditure

Royalty payers are able to reduce the amount of royalty that they pay in the Territory for eligible exploration expenditure (EEE) incurred for their mining operations in the Territory. In addition, they have been able to utilise exploration expenditure incurred by others, through acquiring exploration expenditure certificates (EECs), to also reduce the amount of royalty that they are required to pay. However, the amount by which royalty may be reduced through the use of EEE is limited to a maximum of 25 per cent of the amount that would otherwise be payable.

Moreover, EECs have not been issued since 1 July 2003, so the number and value of EECs available to reduce royalty has been diminishing since then. It is expected that the remaining stock of EECs will be exhausted during 2007-08, restricting royalty payers to claims for EEE expended on their own mining tenements.

The estimated cost of this concession is based on projected future mineral royalty collections, assuming that royalty payers will seek to maximise their royalty deduction by using EEE.

### Conclusion

The Territory has substantially the same revenue-raising powers as the states. However, constitutional and other arrangements limit the revenue-raising base that is available to all states and territories.

Therefore while the Territory, like the states, has limited discretion on the range of taxes that can be applied, it has discretion over the rates of these taxes.

Included in the 2007-08 Budget measures is an increase to the first home owner stamp duty concession effective from 1 May 2007. This measure eases the impact of the stamp duty levied on the purchase of a first home with an outcome that the average first home buyer will not pay stamp duty.

National tax reform has given the states and territories access to a more robust and growing revenue base but it has also further reduced the range of taxes directly available to the states and territories. This has meant states and territories are paying greater attention to the efficiency and comparability of their remaining taxes.